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ABSTRACT

This document contains a semiannual report on the activities of the Department of Education's Office of Inspector General (OIG) for the 6-month period ending March 31, 1996. It highlights the Office's significant accomplishments and activities, including: (1) a series of audit reports to aid reauthorization of the Rehabilitation Act; (2) cooperation with other Education Department offices to reauthorize the Elementary and Secondary Education Act; (3) cooperative audit resolutions; (4) other cooperative efforts with the audit and education communities; (5) audit quality issues: settlement in nonfederal audit suit; (6) examples of OIG effectiveness in postsecondary education; (7) financial statement audits; (8) asset forfeiture; and (9) initiatives conducted at Congressional request. Three abstracts highlight significant audits and audit-related activities, significant prosecutive actions resulting from OIG investigations, and initiatives conducted in response to Congressional requests. A table lists P.L. 95-452 reporting requirements. A glossary of abbreviations and the following six statistical tables are included: (1) recommendations described in previous "Semiannual Reports" on which corrective action has not been completed; (2) Department of Education (ED)/OIG reports on education department programs and activities (October 1, 1995-March 31, 1996); (3) Inspector General issued reports with questioned costs; (4) Inspector General issued reports with recommendations for better use of funds; (5) Unresolved reports issues prior to October 1, 1995; and (6) Statistical summary, October 1, 1995-March 31, 1996). (LMI)

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ED 395 398

U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 32

October 1, 1995 - March 31, 1996

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U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

CULTURE STATEMENT

MISSION STATEMENT: *The mission of the Office of Inspector General is to promote the efficient and effective use of taxpayer dollars in support of American education.*

PEOPLE: *We believe that our people are our most important asset. The importance of the dignity of the individual must prevail in our beliefs and behavior toward one another. We must be ever sensitive that our own dignity is reflected in our behavior toward each other and the public.*

CREATIVITY: *We intend to foster an environment that will capitalize on the talents and capabilities of all OIG employees. We encourage teamwork, innovation, creativity, and the free and open expression of ideas.*

COMMUNICATION: *We support open lines of communication and encourage interaction among all levels of the OIG.*

ACCOUNTABILITY: *We believe in providing employees with a clear understanding of what is expected of them and with the guidance needed to perform these jobs. Each individual is responsible for her/his actions. Managers are responsible for assuring work is fairly evaluated and appropriately recognized.*

PROFESSIONALISM/ETHICS: *We believe our organization must adhere to professional standards and standards of ethics and maintain a climate which fosters excellence in product, integrity in actions, and independence and objectivity in outlook.*

FORWARD THINKING: *We acknowledge that growth and vision are indispensable to the continuity and success of the OIG. We must learn from the past and present how to anticipate and prepare for the future. The OIG is committed to taking the actions necessary to adapt to our changing environment.*

James B. Thomas Jr.

INSPECTOR GENERAL

JULY 1988

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 32

October 1, 1995 - March 31, 1996

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

April 30, 1996

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this Semiannual Report *on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending March 31, 1996. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees.*

When I became this Department's Inspector General in January, I was deeply impressed by the extraordinary challenges — fiscal, operational and programmatic — that faced both the Department and the Office I was to lead. In the months that followed, I was to be equally impressed by the skill, dedication and professional integrity of OIG staff, and by the willingness of Department managers to work cooperatively with us to ensure the efficiency and effectiveness of the Department's operations and programs.

The last several months have indeed been challenging ones for this Department and for the Office of Inspector General, but as we transmit this report, there are hopeful indications of better times ahead. I look forward to continued progress on the critical issues that have been identified during this and prior periods, as together we work to achieve our mutually reinforcing goals of educational excellence and equality of educational opportunity for the nation's learners, and program efficiency, effectiveness and integrity for the nation's learners and taxpayers.

Sincerely,

Thomas R. Bloom

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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Inspector General's
Message to Congress

Meeting the Challenge of the Budget Crisis

In our last *Semiannual Report*, the Acting Inspector General set forth this Office's concerns regarding the precarious fiscal constraints that threatened the viability of some of its most critical operations and functions. During this six-month reporting period, some of those concerns have materialized, and the impact—exacerbated by the nearly month-long period of enforced inactivity caused by the furlough situation at the end of calendar year 1995—is being felt throughout the organization.

The challenge we face is to render the same or increased levels of service fighting fraud, waste and abuse with significantly fewer resources. During the period, we operated under a continuing budget resolution that was 7½ percent below our fiscal year (FY) 1995 funding level, which did not include $1.96 million for law enforcement availability pay and the annual audit of Department-wide financial statements. Thus, we operated under an effective cut of 14 percent. In addition, over the last 3 years we have sustained personnel losses representing 16 percent of our staff, from 369 in 1993 to 310 at present.

Our efforts to succeed in this difficult enterprise have already begun. In many instances—thanks to the dedication, skill and professionalism, not to mention ingenuity and resolve, of OIG staff, and the cooperation of Department managers—these efforts have already begun to show excellent results, as described in the pages that follow.

We shall continue to make every possible effort to meet the statutory mandates and regulatory requirements for which we are responsible. But competence, creativity and commitment, while admirable and even essential, cannot ultimately be expected to compensate for inadequate resources. If these are reduced below the proposed funding level for FY 1997, some of the most critical work efforts and work products of this Office may have to be deferred or even cancelled. In recognition of our obligations to the nation's taxpayers and students, and our commitment to the mission of the Office of Inspector General, we are determined to do all we can to see to it that this is one challenge we will not have to meet.

I look forward to working with you and your staffs in the coming months as we seek to achieve a meaningful resolution to these concerns.

Thomas R. Bloom

Executive Summary:
Significant Activities and Accomplishments

COOPERATIVE INITIATIVES WITH OTHER ED OFFICES

Reauthorization of the Rehabilitation Act

As noted in our last *Semiannual Report*, the Office of Inspector General (OIG) is currently working on a series of audits that are designed to assist the Department (ED) and Congress in the upcoming reauthorization of the Rehabilitation Act. These audits address issues that were developed collaboratively with program officials and in consultation with Congressional staff during a comprehensive program survey.

The OIG plans to issue the audit reports and provide copies to the Department's reauthorization work groups and to Congress during the next reporting period. Our work has focused on the following issue areas:

- why the rate of successful case closures varies between States;
- how well States report and use program income to improve rehabilitation outcomes; and
- whether the current allocation formula reflects the distribution of disabled individuals among States.

Reauthorization of the Elementary and Secondary Education Act

The OIG is also working with program managers and staff, as well as with State and local officials, on a comprehensive survey of Elementary and Secondary Education Act (ESEA) programs. The purpose of the survey is to identify issues we will audit over the next two years in preparation for the reauthorization of ESEA in 1999.

COOPERATIVE AUDIT RESOLUTION

As noted in our last *Semiannual Report*, we have undertaken a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative (CAROI). Under this initiative, we are working in partnership with ED program offices and States to consider alternative approaches to resolving audits in a more efficient and effective manner and rethinking how oversight can work better to help solve recurring problems.

The CAROI team includes staff from the Office of Elementary and Secondary Education (OESE), Office of the Chief Financial Officer, Office of the General Counsel, and OIG. The team has partnered with three States (Florida, Mississippi, and Washington) to better understand the issues that are important to State and local educational agencies in their administration of federally funded education programs.

The overall goal of the CAROI is to improve education programs and student performance at State and local levels through better use of audits, monitoring, and technical assistance. To accomplish this goal, the team developed four strategies:

1) **Create and maintain dialogue with States**

   The objective of this strategy is to work with key parties to address State concerns, remove obstacles to improved program performance, foster new cooperative methods of audit resolution, and avoid recurrence of violations.

2) **Work with States to resolve open audits or audits under appeal**

The objective of this strategy is to work with States to resolve audits from periods covered under prior legislation in a manner more consistent with the ESEA, the Goals 2000: Educate America Act, and the School-to-Work Opportunities Act.

3) **Improve the single audit process**

The objectives of this strategy are:

- to ensure that single audits focus on the most important issues and concerns in ED programs; and
- to revise those portions of the Office of Management and Budget (OMB) compliance supplements applicable to programs authorized under the ESEA to reflect flexibility in a manner consistent with new education legislation.

4) **Coordinate audits, monitoring, and technical assistance**

The objective of this strategy is to improve program performance through better coordination of audits, Federal monitoring, and Federal technical assistance, while encouraging creativity and flexibility at the State and local level.

Our activities and accomplishments under each of these strategies during the reporting period are described in Abstract 1, "Significant Audits and Audit-related Activities."

Other Cooperative Efforts with the Audit and Education Communities

Revision to single audit requirements

Because single audits are an important part of the Department's monitoring system, the OIG has worked extensively with OMB and the General Accounting Office (GAO) in revising OMB guidance and Single Audit Act legislation, respectively. This period, revisions to the Single Audit Act were introduced in the Senate, and revisions to OMB guidance have been entered into the final OMB clearance process for issuance. When enacted/issued, the revised Act and implementing OMB guidance will provide for more efficient and effective audit coverage of ED programs.

Revision to the OMB compliance supplements for single audit

We are also working extensively with OMB to revise and update its compliance supplements for single audit. Last updated in the early '90s, the supplements provide the key compliance requirements auditors should test for and provide guidance on the types of testing to perform. Revising the supplements is a major government-wide effort; the guidance in the compliance supplements is used in virtually all audits of State, local and nonprofit recipients of Federal assistance nationwide.

In addition to revising sections under the Cooperative Audit Resolution and Oversight Initiative for programs authorized by the ESEA, this effort includes revising sections for other ED programs; revising sections for government-wide requirements; and completely reorganizing and reformatting the document. Other ED programs to be updated include special education, rehabilitative services, school-to-work, adult and vocational education, and student financial assistance programs. OMB's goal is to have a final document by December 1996.

Revision to PCIE external quality control review process

The ED/OIG has the lead in a project by the President's Council on Integrity and Efficiency (PCIE) and the Federal Audit Executive Council (the Assistant Inspectors General for Audit) to examine and revise, as appropriate, the PCIE external quality control (peer review)

process. Offices of Inspector General are required to undergo an external quality control review to comply with generally accepted government auditing standards and the Inspector General Act.

This period, a paper was prepared by an ED/OIG-led project team with recommendations on certain policy issues associated with the peer review process. After these recommendations are considered by the PCIE Audit Committee, the team plans to revise and update the PCIE peer review guide.

Other cooperative initiatives

This period, OIG developed with the American Institute of Certified Public Accountants a training program for independent public accountants (IPAs) who audit schools that receive funding under the Title IV student financial assistance programs. The training will be presented by OIG staff as a one-day strategic briefing on the new *SFA Audit Guide* in eight cities. At least 1,000 IPAs are expected to attend.

Audit Quality Issues: Settlement in Non-Federal Audit Suit

This period we began a new initiative focused on evaluating the results of non-Federal audits and ED program reviews of institutions participating in the Title IV programs. The objective of our initiative is to identify instances in which non-Federal audits of such institutions contain no findings while the program reviews contain significant findings of noncompliance. These findings frequently result in significant liabilities for institutions.

This initiative appears very timely, considering the results of a suit filed against a non-Federal audit firm alleging, among other things, negligence in the performance of non-Federal audits. A summary of the results of this lawsuit is provided in Abstract 1, "Significant Audits and Audit-related Activities."

Examples of OIG Effectiveness in Postsecondary Education

In the student aid area, our focus continues to be on the Department's implementation of the William D. Ford Federal Direct Loan program. This program continues to generate enormous activity by management and intense Congressional interest. While circumstances warrant that the Direct Loan program continue to be an audit priority, we recognize the need to also focus our work on the Federal Family Education Loan (FFEL) program and the Pell Grant program, both large-dollar student financial assistance programs susceptible to fraud, waste and abuse due to poor program design and decentralized administration.

Debt collection activity

This period we issued a series of reports on the Department's debt collection activities—one dealing with loan consolidations, others dealing with the effectiveness and efficiency of the Office of Postsecondary Education's Debt Collection Service (DCS) operations. In the loan consolidation report, we assessed the cost-effectiveness of the Department's initiative to target over 800,000 defaulted DCS borrowers' loans for consolidation into the Direct Loan program. Based on information available to us, our assessment concluded that it was not cost-effective to consolidate these loans. Accordingly, we recommended that active pursuit of additional DCS consolidations be discontinued until a study is performed. Department program managers, while not in total agreement with our report, agreed to implement our recommendations.

Our series of reports assessing the effectiveness and efficiency of DCS operations showed, overall, that DCS's efforts to accomplish its mission were noteworthy. The reports

dealt with DCS's internal operations, contract collection agency activities, and areas outside DCS's control.

We recommended steps that DCS could take to improve internal operations; improve the role that contract collection agencies play in DCS's efforts to meet its mission of providing quality customer service and sound credit management to increase net revenue; and improve customer service by emphasizing the need for a long-term, Department-wide collection policy.

Handling FFEL loans held by bankrupt or insolvent institutions

Also this period, we issued a report on lessons learned from the Resolution Trust Corporation's handling of Federal Family Education Loans. Our review concluded that a strategy for responding when institutions participating in the FFEL program become insolvent or bankrupt is needed. We also recommended that further dialogue between ED and the Federal Deposit Insurance Corporation continue with a view toward establishing a mechanism for coordinating and sharing data about these institutions.

Financial Statement Audits

The Government Management Reform Act (GMRA), passed in 1994, mandates annual audits of agency-wide financial statements for FY 1996 and each year thereafter. In addition, GMRA mandates that consolidated government-wide financial statements be audited as of FY 1997. This period, our efforts were focused on both the required audit of ED financial statements and the development of guidance that will assist Federal agencies and OIGs in the preparation and audit of Department-wide financial statements. These efforts, as well as our concerns regarding the lack of funding that has severely challenged our ability to fulfill the GMRA mandate, are described below.

Government-wide Financial Statements Audit Task Force

The ED/OIG is participating in a government-wide Financial Statements Audit Task Force that is developing guidance for the preparation and audit of the Department-wide financial statements to meet GMRA requirements. The task force includes representatives from OMB, GAO, the Department of the Treasury, and the OIG and Chief Financial Officer (CFO) communities. Our participation is primarily in the areas of single audit reliance, credit reform, and electronic data processing audit requirements.

The objectives of the task force are:

- to provide recommended solutions for government-wide auditing and accounting issues not addressed by the Federal Accounting Standards Advisory Board;
- to provide a forum for assuring consistency of implementation guidance for identified accounting and auditing issues; and
- to assist GAO in developing its government-wide audit plan.

Department-wide audit

An audit of the FY 1995 Department-wide financial statements is currently being conducted, one year ahead of the GMRA requirement. The audit is being performed by an independent public accountant, with some assistance from the OIG, whose report is expected to be issued by the end of June. This is the first time the Department's operations will have had a financial statement audit.

Some of the challenges facing the Department-wide audit are essentially the same as those encountered in previous CFO audits. They include:

- overcoming antiquated financial management systems in preparing the statements;
- overcoming data reliability issues for financial statement estimates; and

- overcoming weaknesses in the monitoring of schools, lenders, and guaranty agencies.

The Department-wide audit plays an important role in improving the financial management of the Department by ensuring accountability and responsible stewardship of Federal resources. This audit, as previous CFO audits, will provide specific examples and recommendations for strengthened internal controls and financial management systems. Implementing audit recommendations will help the Department prepare for the first statutorily required audit of the FY 1996 Department-wide statements.

Lack of funding raises questions on future of Department-wide audit

The GMRA-mandated annual audit of the Department's financial statements presents a substantial challenge to the OIG. We do not have enough staff with sufficient financial audit expertise to perform the required audit in-house without substantial contractor assistance. Historically, the OIG has not received adequate funding for contracting and we have had to rely upon the Department to pay for major portions of the audits.

Initially, funding for contracting from the Department allowed us to employ IPAs under contract to conduct the audit on behalf of the OIG. Operating under continuing resolutions, however, has hampered ED's ability to fund the FY 1996 Department-wide audit.

We believe that it is more efficient and effective to continue to allow independent public accountants to perform the major portions of the Department-wide audit while maintaining a core competency in financial statement auditing expertise in OIG. A source of funding for this year's financial statement audit is in the process of being determined.

ASSET FORFEITURE

In our last *Semiannual Report*, the Acting Inspector General discussed his concerns regarding this Office's lack of legislative authority to share in the proceeds of forfeited assets seized by the government pursuant to judicial orders based on prosecutive actions resulting from our investigations. Since the issuance of that report, we have seen little progress in the situation and remain concerned that our inability to receive an "equitable share" of forfeited proceeds—an authority maintained by other Federal, State and local law enforcement agencies—has resulted in a *de facto* denial of funds that, under comparable circumstances, would be available to other investigative agencies.

Lack of authority results in loss of opportunity to share in proceeds

Asset forfeiture is a powerful law enforcement tool that is aimed at taking the profit out of crime. It is particularly appropriate in the context of student aid program fraud cases, because the sole motive of the perpetrators is to enrich themselves at the expense of students and taxpayers.

As noted in our last *Semiannual Report*, OIG investigators have been responsible for some significant asset seizures in California, Puerto Rico and Texas from trade-school owners who have defrauded the student loan and grant programs. This period we were denied the opportunity to share in the proceeds of $1.2 million that was forfeited by the owner of a Texas truck-driving school who had defrauded the student loan programs. The other Federal law enforcement agency involved admitted that we had performed the lion's share of the work, and that, accordingly, we should receive a substantial portion of the proceeds of the seized assets; but we did not have the statutory authority to receive the money. Moreover, we could not accept reimbursement for our substantial investigative costs related to the case. We have aggressively explored non-legislative options, but our efforts have consistently been frustrated by statutory and bureaucratic obstacles. The Justice Department's asset forfeiture

fund was reported to hold some $549.9 million in 1994, but we cannot receive any proceeds from this or any other forfeiture fund to defray the costs of our investigations, except in very limited circumstances.

We again ask the Congress to allow us, as it has State and other government law enforcement agencies, to receive an "equitable share" of asset forfeiture proceeds from our cases. Doing so would not only help provide needed support for our investigative efforts, but would also be in every way the equitable thing to do.

INITIATIVES CONDUCTED AT CONGRESSIONAL REQUEST

This period, the OIG initiated or completed reviews in response to Congressional requests. These initiatives are discussed below.

Local school districts' use of Drug-Free Schools and Communities Act funds

At the request of the House Subcommittee on National Security, International Affairs and Criminal Justice, we performed a review to determine how local school districts used their Drug-Free Schools and Communities Act (DFSCA) funds. We visited nine school districts and determined how they used their DFSCA funds during FY 1995. The results of our review were presented to the subcommittee and are summarized in Abstract 3, "Initiatives Conducted in Response to Congressional Requests."

Review of Direct Loan and FFEL program administration

At the request of the House Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunity, we are conducting a review of the management systems and structure of the student financial assistance programs. Our review will assess the efficiency, effectiveness and consistent application of the systems and structure with respect to the Direct Loan program and the parallel FFEL program. We plan to complete this review during the next reporting period.

Review of the Office for Civil Rights

As a result of several Congressional requests, the OIG conducted an audit of the Office for Civil Rights' (OCR) complaint evaluation and resolution processes. We found that OCR has made many improvements in its operations. OCR's efforts are ongoing and our recommendations should assist them in contining to improve operations. The results of our review are discussed in detail in Abstract 1, "Significant Audits and Audit-related Activities."

P.L. 95-452 REPORTING REQUIREMENTS

SECTIONS 5(a)(1) and 5(a)(2) Significant Problems, Abuses and Deficiencies

- Significant Findings and Recommendations Disclosed in OIG-issued Audit Reports 8
- Significant Prosecutive Actions Resulting from OIG Investigations 18

SECTION 5(a)(3) Recommendations Described in Previous *Semiannual Reports* on Which Corrective Action Has Not Been Completed 31

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SECTIONS 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused or Not Provided*

SECTION 5(a)(6) Listing of Audit Reports

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SECTION 5(a)(7) Summary of Significant Audits

- Significant Findings and Recommendations Disclosed in OIG-issued Audit Reports 8

SECTION 5(a)(8) Audit Reports Containing Questioned Costs

- Inspector General Issued Reports with Questioned Costs 35

SECTION 5(a)(9) Audit Reports Containing Recommendations That Funds Be Put to Better Use

- Inspector General Issued Reports with Recommendations for Better Use of Funds 36

SECTION 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period

- Unresolved Reports Issued Prior to October 1, 1995 37

SECTION 5(a)(11) Significant Revised Management Decisions*

SECTION 5(a)(12) Significant Management Decisions with Which OIG Disagreed*

*We have no instances to report.

Abstract 1

SIGNIFICANT AUDITS AND AUDIT-RELATED ACTIVITIES

(October 1, 1995 – March 31, 1996)

NOTE: The amounts reported by auditors for the reports described below are subject to further review and final determination by Department officials.

★ Elementary, Secondary and Other Education Programs ★

"New York State Department of Education and New York City Board of Education Audit of Chapter 1/Title I Monitoring and Recognition Programs"

ACN 02-40201 February 2, 1996

Our audit disclosed that the Chapter 1/Title I program in New York City is closely monitored by both the New York State Education Department (NYSED) and the New York City Board of Education (NYCBOE); has a heavy emphasis placed on identifying and rewarding exemplary programs; and strongly encourages less successful programs to emulate these exemplary programs. Our concern, however, is that the current NYCBOE Chapter 1/Title I recognition program, which is based solely on annual changes in standardized test scores, does not consider any other performance factors, and may be rewarding schools whose students, despite improvements in test scores, are still failing to reach grade-level proficiency or to meet NYSED-developed standards.

We recommended that NYSED review NYCBOE's Chapter 1/Title I reward and recognition systems to ensure that these systems better reflect the actual success of NYCBOE's schools in enabling students to reach grade-level proficiency and/or to meet NYSED-developed standards.

Both the Board of Education of the City of New York and The State Education Department agreed with our finding and advised us that action has already been taken to improve the Title I recognition process. Furthermore, the recognition program is no longer based solely on annual changes in standardized test scores without considering other performance factors.

□ □ □

"New Jersey Division of Vocational Rehabilitation Services Needs to Strengthen Its Policies, Procedures, and Controls for Vocational Rehabilitation Program Income"

ACN 02-50202 March 15, 1996

Our review of the New Jersey Division of Vocational Rehabilitation Services' (DVRS) administration of the Vocational Rehabilitation (VR) program disclosed a number of areas needing improvement. It also disclosed that DVRS has taken significant actions to address these issues. We found that:

- Reimbursements received by DVRS from third parties were generally not classified as program income or reported to the Rehabilitation Services Administration (RSA). We estimate that DVRS did not report $133,000 in program income to RSA in 1994. However, we determined that the funds were used for program purposes.

- Although DVRS does classify and report reimbursements from the Social Security Administration (SSA) as program income, it needs to establish better controls over the process by reconciling and following up on outstanding claims. SSA receipts for 1994 totaled $1.2 million.

DVRS officials agreed that policies and procedures concerning classification of reimbursements need to be in compliance with RSA regulations, and noted that changes in policy, and training and guidance to its field offices had been instituted to accomplish this. However, officials indicated that DVRS's internal controls over third-party payments were strong and that it had properly reported all third-party payments to RSA. They further advised us that controls over SSA receipts would be strengthened as a result of DVRS's automated management system.

We recommended that RSA require that DVRS continue its efforts to revise its policies, procedures and controls to ensure that all program income is properly classified, controlled and reported to RSA; and continue to implement stronger controls over the process of claims and receipts from SSA.

★ Departmental Management ★

"Lessons Learned from RTC's Handling of Federal Family Education Loans ... Strategy Needed to Handle Student Loan Administrative Issues Involving Failed or Bankrupt Institutions Participating in the Federal Family Education Loan Program"

ACN 04-38000 March 19, 1996

Our review disclosed that at least 40 percent of the approximately 769 savings and loan institutions that became insolvent in the late 1980s, and were either sold or taken over by the Resolution Trust Corporation (RTC), had valid lender identification numbers and were eligible to participate in the FFEL program. RTC estimated that these institutions had approximately $453 billion in assets, of which $1 billion were student loans.

The Department and RTC entered into an agreement whereby the Department would waive the right to refuse to pay reinsurance for any FFEL program loan acquired and subsequently sold by RTC. This agreement neither allowed for Department officials to participate in the sale of student loans portfolios, nor required RTC to provide any details concerning the composition or disposition of the student loan portfolios. Our analysis of student loan sales data from RTC showed that RTC sold the student loans for a wide range of prices to purchasers some of whom were not eligible lenders.

We recommended that the Department develop a strategy for responding when institutions participating in the FFEL program become insolvent or bankrupt. In addition, we recommended that program officials pursue further dialogue with the Federal Deposit Insurance Corporation (FDIC) in order to establish a mechanism through which ED and FDIC can coordinate and share data concerning these institutions.

□ □ □

"Process Enhancements in the HEA, Title III, Institutional Aid Program Would Increase Program Efficiency, Despite Limited Resources"

ACN 04-60001 March 27, 1996

Our limited review disclosed that processes could be enhanced in the Title III, Institutional Aid program, to increase program efficiency and help realize the goals of the 1993 National Performance Review. The processes that could be enhanced include those of determining eligibility, reviewing applications, and granting awards, as well as those

of providing technical assistance and conducting monitoring. In addition to satisfying the recommendations of the NPR, the enhancements would help focus limited administrative resources where needed most and facilitate achievement of objectives by grant recipients.

□ □ □

"Effectiveness and Efficiency of Debt Collection Service — Areas Outside Management's Control"

ACN 05-40003 March 12, 1996

Our review disclosed that ED might have an opportunity to further improve customer service and generate about $16 million to $17 million for each additional $1 million invested toward Debt Collection Service (DCS) in-house collection activities by either moving DCS, currently housed in the Office of Postsecondary Education (OPE), to the Office of the Chief Financial Officer (OCFO); or developing a Memorandum of Understanding (MOU) between OCFO and OPE to ensure that OPE maintains a consistent focus on ED's long-term, Department-wide debt collection policy.

We also found that DCS's computer system was not always available for DCS staff to use, operated slowly, and was awkward to use. As a result, DCS:

- could not implement its collection initiatives in a timely manner;
- used limited staff resources to manually perform tasks that could be automated, delaying other important work; and
- could not service its entire portfolio, delaying account resolution and customer service processes.

We recommended that ED provide DCS with more control over its computer system, or dispose of the current system and contract for a new one.

The Department disagreed with our recommendation to move DCS to OCFO, believing that such a move would fragment student financial assistance program delivery and would not necessarily result in either increased customer service, improved credit management, or increased net revenue. Our alternative recommendation for an MOU between OPE and OCFO is under consideration.

The Department agreed with our recommendation to provide DCS with more control over its computer system so that DCS has the capability and flexibility to meet changing technological needs.

□ □ □

"ED Needs to Consider Implementing Changes for Monitoring Lenders and Servicers"

ACN 05-40005 February 15, 1996

Our review found that potential shifts in loan volume from the Federal Family Education Loan program to the Federal Direct Student Loan program may result in a reduction in lender third-party servicing capacity for the existing FFEL portfolio. We identified 6 out of 30 servicers that we considered marginally financially responsible; 3 of the 6 service about $11 billion of the FFEL portfolio.

We believe that ED has an interest in ensuring an orderly transition if existing servicers cease operations. Based on the results of our audit, we identified two improvements ED should consider implementing to enhance its effectiveness in this area. We believe the Department should:

- improve its servicer database so that all FFEL lender third-party servicers can be identified; and
- establish a process to identify lender third-party servicers that demonstrate marginal financial responsibility and perform special reviews of marginal servicers with significant portfolios so that there is an orderly transition if lender third-party servicing capacity is reduced, thereby ensuring uninterrupted access to servicing for FFEL lenders.

The Department concurred with our recommendations.

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"Audit of Great Lakes Higher Education Corporation's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program"

ACN 05-50002 November 8, 1995

Our review found that reporting consolidated loans as collections allowed the Great Lakes Higher Education Corporation (GLHEC) to retain excessive FCL (Federal Consolidation Loan) payments. We recommended that the Department instruct GLHEC to:

- refund to ED $1,012,000; and
- report the payments received in the consolidation of defaulted loans separately from collections on defaulted loans on its monthly claims and collections report.

GHLEC concurred with the general policy objective of our recommendations. Following the issuance of our draft report, we were advised that the Department plans to issue guidance clarifying the retention of payments guaranty agencies receive as the result of borrowers consolidating defaulted FFELs. Therefore, the amount recommended for refund to ED may need to be adjusted.

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"Audit of Illinois Student Assistance Corporation's Reporting of Defaulted Federal Family Education Loan Program Loans Consolidated Under the Federal Consolidation Loan Program""

ACN 05-50004 November 9, 1995

Our review found that reporting consolidated loans as collections allowed the Illinois Student Assistance Corporation (ISAC) to retain excessive FCL payments. We recommended that the Department instruct ISAC to:

- refund to ED $445,777; and
- report the payments received in the consolidation of defaulted loans separately from collections on defaulted loans on its monthly claims and collections report.

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"Effectiveness and Efficiency of Debt Collection Service — Areas Related to Collection Agency Activities"

ACN 05-50007 November 9, 1995

During our audit, we found that collection agencies played a very important role in DCS operations. By using collection agencies, DCS had more people collecting on accounts and only incurred costs when results were successful. In the future, collection agencies will continue to play a very important role.

Our review found that DCS could improve the role collection agencies play in DCS's efforts to meet its mission of providing quality customer service and sound credit management to increase net revenue. We recommended that DCS:

- include provisions in the next set of collection contracts to assure itself that collection agencies continue performing required collection activity on all accounts;
- let collection agencies approve compromises, and automate the Debt Management and Collection System (DMCS) so that compromise payments close accounts; and
- let collection agencies process disability and death resolutions, and automate the DMCS for disability and death resolutions.

The Department generally agreed with the conclusions and recommendations in the report. The written response indicated that DCS, as an organization that espouses continuous improvement, is already implementing specific changes in two of the three improvement areas discussed in the report. We have further been advised that DCS concurs with the conclusions and recommendations in the third improvement area and will implement the recommendations the same way it implements changes related to the second improvement area.

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"Effectiveness and Efficiency of Debt Collection Service — Areas Related to Internal Operations"

ACN 05-50008 November 7, 1995

The Debt Collection Service provides leadership in trying to apply state-of-the-art debt collection techniques to collect defaulted accounts held by the Department, guaranty agencies, schools, and other participants. Our review found that, in the future, DCS can better achieve its mission by strengthening efforts for tracking mail, recovering administrative costs, identifying accounts with incorrect addresses, transferring accounts with incorrect addresses to collection agencies, and tracking account characteristics and experimenting with transfer criteria.

DCS management generally agreed with the conclusions in the report. The response indicated that DCS is already in the process of implementing specific changes.

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"Review of Office for Civil Rights — Complaint Evaluation and Use of Resources"

ACN 05-50200 November 22, 1995

Our audit disclosed that OCR has made many improvements in operations—including employee empowerment, reduced levels of review, a new Complaint Resolution Manual, and a new organizational structure—which have

helped OCR improve the way it evaluates and resolves civil rights complaints. Our report recommended ways in which OCR might further improve its operations in the following areas.

- We found that some regional offices may rely on the memory of regional personnel for information to determine if OCR will proceed with or continue complaint resolution during the evaluation process. OCR could improve complaint resolution by requiring all regions to routinely use a formal system, rather than memory, to gather information needed to fully evaluate civil rights complaints.
- OCR uses many different information systems to gather information, record complaints and manage its case load. These systems currently do not always provide complete and accurate information in a flexible manner. We suggested several actions which OCR could take to improve its information systems.
- OCR is reorganizing, moving from a hierarchical structure to a team-based structure. We provided suggestions to help OCR improve its reorganization and further meet its mission.

OCR management generally agreed with the conclusions and recommendations in the report. The response indicated that OCR has made many improvements in operations and expects to implement most of the changes by the end of fiscal year 1996.

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"The Escrow Process: A Potentially Effective Tool for Safeguarding Title IV Funds"

ACN 06-40004 January 29, 1996

Our audit found that the Department's lack of coordinated policies and procedures relative to the escrow process has caused the process to be used only sparingly as a sanction against schools with known refund problems. As a result, many Title IV funds remain at heightened risk, and students and the government bear the cost when loan and other Title IV refunds go unmade.

We recommended that the Department develop and apply policies and procedures that encourage the use of escrow agreements at schools with known refund problems. These procedures should ensure that the escrow agents perform the monitoring function the Department expects from them. We further recommended that the Department establish and coordinate which office(s) will be responsible for initiating and overseeing the escrow process.

We delayed issuing this final report because responsible ED officials verbally indicated that action had been taken to address our recommendations and that a written response was forthcoming. However, because no response was received, we were obliged to issue the final report without the Department's comments.

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"OPE Waivers: The Department Should Establish and Follow a Process"

ACN 07-58051 February 13, 1996

The objective of our review was to evaluate OPE's waiver-granting process for the Federal Family Education Loan program. The review was limited to waivers for lenders, servicers, guaranty agencies, and secondary markets. OPE officials told us that there was no waiver-granting process. We recommended that OPE officials establish and follow specific conditions and criteria for granting waivers, clarify the waiver authority delegation policy, and establish and follow specific definitions and criteria for waivers and consitions under which waivers will be granted.

OPE officials agreed in general with the recommendation to improve the process for administering the Secretary's waiver authority, and agreed that a specific delegation of authority would be appropriate. However, officials ex-

pressed the view that considerable flexibility should be retained with respect to conditions and criteria for granting waivers.

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"Cost Analysis of the Department's Initiative to Consolidate Debt Collection Service Loans into the Direct Loan Program"

ACN 11-50002 January 19, 1996

The objective of the audit was to assess the cost-effectiveness of the Department's initiative to target defaulted Debt Collection Service borrowers' loans for consolidation into the Federal Direct Consolidation Loan Program. Based on current information, we concluded that it is not cost-effective to consolidate the DCS loans for the following reasons:

- The Department's cost to consolidate DCS borrowers into the Direct Consolidation Loan Program will be relatively expensive. This is due in large part to collection agency fees and servicer fees. Although the majority of the cost will be added to the borrower's principal loan balance, we do not expect collections to be sufficient to cover the cost of consolidation.
- While the borrower's loan is in the Direct Consolidation Loan Program, the Department will lose revenue from involuntary collections. Federal offset, the most effective collection method, resulted in revenues of approximately $548 million in FY 1995, of which $99 million was from the borrowers targeted in this initiative.
- Based on the fact that DCS borrowers have a poor payment history, there is a strong possibility that these borrowers will default again or be allowed to make zero to minimal payments. DCS reports voluntary collections averaging $18 million per year, which results in an annual collection rate of 0.59 percent for the targeted borrowers. Over the maximum allowable period for Income Contingent Repayment (ICR) — 25 years — we estimate the Department would have to increase its collection rate by 1,100 percent each year to recoup the cost of this consolidation.
- DCS currently has the option of accepting payments based on the borrower's ability to pay. Analysis of current collections indicates that the Department's expectations for the Direct Consolidation Loan's ICR plan may be overly optimistic. In addition, an ICR plan will soon be available in DCS.

To limit the financial risk to the Department, we recommended that the Department discontinue the active pursuit of consolidating DCS loans and conduct a study to determine the economic viability of this initiative. OPE, although not in total agreement with the audit results, agreed with our recommendations and plans to implement them.

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Cooperative Audit Resolution and Oversight Initiative

The CAROI team includes members from the Office of Elementary and Secondary Education, Office of the Chief Financial Officer, Office of the General Counsel, and OIG. The team has partnered with three States (Florida, Mississippi, and Washington). The goal of CAROI is to improve education programs and student performance at State and local levels through better use of audits, monitoring and technical assistance. To accomplish this goal the CAROI team developed four strategies that are described below along with the team's accomplishments during this reporting period.

#1: CREATE AND MAINTAIN DIALOGUE WITH STATES

OBJECTIVE: Work with key parties to address State concerns, remove obstacles to improved program performance, foster new cooperative methods of audit resolution, and avoid recurrence of violations.

ACCOMPLISHMENTS: The CAROI team made presentations to State and local officials and held focus groups at the following conferences:

- Office of Elementary and Secondary Education and Office of Bilingual Education and Minority Languages Affairs National Conference
- National Association of State Coordinators for Compensatory Education Conference
- Title VI Innovative Education Programs Conference

#2: WORK WITH STATES TO RESOLVE OPEN AUDITS OR AUDITS UNDER APPEAL

OBJECTIVE: Work with States to resolve audits from periods covered under prior legislation in a manner that is more consistent with the Improving America's Schools Act, the Goals 2000: Educate America Act, and the School-to-Work Opportunities Act.

ACCOMPLISHMENTS: This period, the CAROI team worked on the first cooperative resolution with the State of Florida to develop a flexible time distribution system. This cooperative resolution is expected to be completed during the next reporting period.

#3: IMPROVE THE SINGLE AUDIT PROCESS

OBJECTIVE: Ensure that Single Audits focus on the most important issues and concerns in Department of Education programs; and revise the Office of Management and Budget's Compliance Supplement for Education Programs for programs authorized under the Improving America's Schools Act to reflect new flexibility in a manner consistent with new education legislation.

ACCOMPLISHMENTS: An "exposure draft" of the revised OMB Compliance Supplement for Education Programs for programs authorized under the IASA was recently distributed nationwide for comment. The final is targeted for June 1996 and the first audits of the IASA programs will begin this summer.

#4: COORDINATE AUDITS, MONITORING, AND TECHNICAL ASSISTANCE

OBJECTIVE: Improve program performance through better coordination of audits, Federal monitoring, and Federal technical assistance, while encouraging creativity and flexibility at the State and local level.

ACCOMPLISHMENTS: CAROI held three focus groups of Department employees to solicit input for creating a database for tracking all Department audit, monitoring and technical assistance activities.

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Audit Quality Issues:
Settlement in Non-Federal Audit Suit

We reported in *Semiannual Report No. 19* that our audit of Tarkio College, Tarkio, Missouri, disclosed that $16.9 million in Federal student financial assistance was awarded to students enrolled in ineligible extension programs. Interest and special allowances of $3.2 million were paid by ED on those Stafford loans. Subsequent to our audit, Tarkio College declared bankruptcy and ultimately sued its non-Federal auditors for negligence in conducting its

audits. Negligence was alleged in that the non-Federal auditors used the wrong audit guide, were unfamiliar with ED requirements for such audits, did insufficient audit work in the area of institutional eligibility, and failed to gather and document sufficient evidence to substantiate the audit opinions issued in the non-Federal audits of Tarkio College.

Recently Tarkio College and its non-Federal auditors entered into a settlement agreement that will net Tarkio College approximately $3.5 million, after payment of legal fees and expenses. As one of Tarkio's creditors, ED expects to receive some portion of the $3.5 million.

Abstract 2

SIGNIFICANT PROSECUTIVE ACTIONS RESULTING FROM OIG INVESTIGATIONS

(October 1, 1995 – March 31, 1996)

★ School Owners and Officials ★

Cosmetology Training Center

Rochester, Minnesota

ALVIN JAY SCHREUR, owner

Alvin Jay Schreur pled guilty to a one-count information charging him with bank fraud. In his plea agreement, Schreur agreed to make restitution in the amount of $238,065 to the banks involved and cooperate with the government in its investigation and prosecution of other individuals. From the period June 1, 1992 to September 30, 1992, Schreur defrauded three banks—First Bank Eden Prairie, Norwest Bank Mankato, and Norwest Bank Rochester—by executing a check-kiting scheme. The accounts were school accounts used for depositing guaranteed student loan and Pell Grant funds.

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Lauren Beauty College

Parma, Ohio

STEPHANIE SMIGELSKI, president/owner

Stephanie Smigelski was charged with grand theft in a one-count indictment in Cuyahoga County, Ohio. An OIG investigation developed evidence that Smigelski falsified students' hours of attendence, thereby allegedly obtaining illegally a total of $21,105 in Pell Grant funds for students who did not earn enough hours to qualify for a second Pell Grant disbursement.

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Interamerican Business Institute

Chicago, Illinois

DIEGO AGUIRRE, owner

Diego Aguirre was indicted in the Northern District of Illinois on four counts of mail fraud and four counts of student financial assistance fraud. An OIG investigation developed evidence that between 1989 and 1992, Aguirre fraudulently cashed 232 student loan checks totaling $291,490. Our investigation also revealed that most of the students for whom the checks were issued had canceled their enrollment and never attended IBI, or only attended the school for a short time.

According to investigators, Aguirre cashed the students loan checks without the students' signatures and converted the funds to his own use. Aguirre failed to refund any student loan funds kept by the school and allegedly destroyed the students files before he closed the school in 1992.

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A.B. Institute

El Centro and *San Diego, California*

LAWRENCE DORIA, owner

Lawrence Robert Doria entered into a plea agreement in U.S. District Court for the Southern District of California, San Diego, California. Doria pled guilty to count two of a three-count superseding indictment which charged him with submitting fraudulent loan applications.

The investigation found that Doria opened a branch campus in El Centro, California, which was ineligible to participate in the student financial aid programs. In April 1990, Doria admitted to ED that the ABI-El Centro branch was only a recruiting office, and that only 25 students were enrolled at the El Centro campus. Doria also admitted that he had used ABI-San Diego's school code for the ineligible students to receive student aid funds. Doria informed ED that he had made a mistake and would make the appropriate refunds; however, he continued to certify and submit student loan applications on behalf of ABI-El Centro students through November 1990.

★ Civil Actions ★

Flamingo Beauty Colleges (FBC)

Springfield, Illinois

JIMMY NEVIUS, owner

The U.S. Attorney's office in Springfield, Illinois, filed a civil complaint against Jimmy Nevius under the False Claims Act, charging failure to properly disburse student financial assistance funds. An OIG investigation developed evidence that FBC officials cashed student loan checks to which neither the school nor the students were entitled because the students did not complete the required number of hours of instruction. The students were entitled to the first of two student loan disbursements upon starting school, but were not entitled to the second disbursement until they completed the required hours. FBC failed to refund legitimate student loan funds on behalf of the students who withdrew from the school before FBC had earned all the student loans.

Nevius and FBC are alleged to have improperly retained approximately $53,000 in student loans and grants by certifying 15 students and falsely claiming that they were enrolled at the school and that they had either a high school diploma or general equivalency degree or had been administered an ability-to-benefit test by an independent tester. We found that in fact an FBC employee administered the test, thus making the students ineligible to receive student aid funds.

The complaint states that Nevius and FBC were unjustly enriched by obtaining ineligible loan disbursements totaling approximately $38,000 and by failing to refund approximately $52,000 in unearned student loan and grant funds. Under the False Claims Act, the court may grant judgment for treble damages plus civil penalties of $5,000 to $10,000 for each false claim. The total claim could be as high as $1 million.

★ Other Investigative Cases ★

Conrad Cortez

El Paso, Texas

A Federal grand jury, Western District of Texas, El Paso Division, El Paso, Texas, returned a seven-count indictment charging Conrad Cortez with mail fraud. A joint OIG/U.S. Postal Service investigation developed evidence that Cortez, while posing as a student at a foreign medical school, submitted approximately 30 fraudulent guaranteed student loan applications. Cortez is alleged to have falsified the certification section of the applications stating that he was enrolled as a full-time student at Universidad Autonoma de Ciudad Juarez and submitted the applications to the guarantors. Cortez allegedly used various mail boxes to receive PLUS and SLS loans totaling $220,000. The investigation was initiated based upon receipt of an allegation from the Texas Guaranteed Student Loan Corporation.

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James A. Reeves

Federal employee

Shreveport, Louisiana

James A. Reeves, a Social Security Administration (SSA) employee, was charged in a one-count criminal information in U.S. District Court for the Western District of Louisiana, Shreveport Division, Shreveport, Louisiana, with making false statements. Based on an anonymous complaint, OIG investigators confirmed that four student loans had been discharged based upon the reported death of James A. Reeves. A joint investigation with the FBI and the SSA/OIG developed evidence that Reeves used a ficititous Social Security number to obtain four PLUS loans totaling $16,000 for two nieces to attend Grambling State University.

Interviews and records indicated that Reeves, while employed by SSA, used various documentation to secure both hardship and military deferments, including using U.S. Army stationery to defer payment by fraudulently claiming to have served in Desert Storm. Subsequently, Reeves fraudulently used a Social Security Administration form to have the loans discharged by claiming to be deceased.

After being interviewed, Reeves made partial restitution in the amount of $5,035. Reeves subsequently pled guilty in U.S. District Court for the Western District of Louisiana, Shreveport Division, Shreveport, Louisiana, to the one-count information filed in this case.

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Ronnie Jackson

UNIVERSITY OF MISSISSIPPI

Oxford, Mississippi

Ronnie Jackson was sentenced in the Northern District of Mississippi to 4 months home detention and 5 years probation, and was ordered to pay $6,245 in restitution and a $25 fine. This case was initiated based upon information received from the Pennsylvania Higher Education Assistance Agency (PHEAA) indicating that Jackson had fraudulently obtained Federal student financial aid by falsely stating that he was not in default on prior federally guaranteed student loans.

The joint OIG/FBI investigation revealed that Jackson received $27,335 in student loans between 1980 and 1990. Jackson was in default on $21,090 when he applied for an additional $6,245 in loans while attending the University of Mississippi School of Law. Jackson contacted the Mississippi guaranty agency several times with regard to his defaulted loans, asking that they give him an exception or change the regulations to enable him to obtain additional financial aid to attend law school. Informed that he was not eligible, Jackson advised the Mississippi agency that he had already received guaranteed student financial aid from PHEAA.

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Maureen Donovan

Boston, Massachusetts

A one-count information was filed in U.S. District Court, Boston, Massachusetts, charging former Suffolk University and Suffolk University Law School student Maureen Donovan with fraudulently applying for and receiving Federal student financial assistance funds. A joint ED/OIG—IRS/Criminal Investigative Division investigation developed evidence that Ms. Donovan provided false information to the two financial aid offices, thereby obtaining over $20,000 in grant, loan and work-study funds.

Ms. Donovan's false statements were allegedly part of a larger scheme to hide her husband's source of income. Her husband, Charles Donovan, pled guilty to a three-count information charging him with racketeering, bank fraud, and access device fraud. Investigation determined that Mr. Donovan's sole source of income from at least 1988 to 1994 was loansharking. Mr. Donovan collected three percent interest weekly from his customers, a usurious rate of 156 percent annually. The investigation revealed that the Donovans enjoyed a lavish lifestyle with the proceeds of the loansharking activity which enabled them to purchase three Harley-Davidson motorcycles, three Ferraris, two BMWs, an Alfa Romeo, and a Mercedes.

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Okinaka Ihu

Memphis, Tennessee

Okinaka Ihu was indicted in the Western District of Tennessee on one count of student loan fraud and one count of forgery or false use of a passport. The indictment was a result of a joint ED/OIG and Immigration and Naturalization Service investigation. Further investigation revealed that Ihu received approximately $4,800 in federally guaranteed financial aid from Middle Tennessee State University and $1,025 from Tennessee State University. Ihu was arrested by Federal marshals as he was on his way to the University of Memphis to pick up approximately $2,700 in financial aid.

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Craig E. Jackson, bankruptcy specialist

NORTHWEST EDUCATIONAL LOAN ASSOCIATION (NELA)

Seattle, Washington

Craig E. Jackson pled guilty in U.S. District Court, Western District of Washington, to one count of bank fraud. A joint investigation by the OIG and the Federal Bureau of Investigation (FBI) developed evidence that Jackson had

embezzled and forged Stafford loan repayment checks in the amount of $7,523 and deposited the checks into his business account.

The investigation resulted in Jackson's confession to the embezzlement of several thousand dollars in Stafford loan repayment checks. Jackson signed a plea agreement acknowledging that he had stolen, forged and deposited Stafford loan repayment checks totaling approximately $50,000 into his business account between August 1994 and December 1995. Jackson also agreed to make restitution of $49, 661. NELA ensured ED that the students would not be affected by Jackson's theft of the bankruptcy trustee checks.

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George I. Conroy, president

PEABODY, BERKELEY-RIVES

Owings Mills, Maryland

George I. Conroy agreed to plead guilty in the U.S. District Court for the Middle District of North Carolina to charges of embezzling $347,751 from the Piedmont Independent College Association (PICA) of Greensboro, North Carolina. Conroy was previously indicted by a Federal grand jury on charges of theft of government property. Conroy is alleged to have misled PICA officials by promising to deliver computer equipment and supply maintenance services while never intending to provide the computers or services.

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Sandra Moore

Waco, Texas

Sandra Moore was charged on four counts of student financial aid fraud in U.S. District Court, Western District of Texas. An OIG investigation developed evidence that Moore had obtained $6,713 in PLUS loan funds by forging the signature of the University of Houston's financial aid director. In August 1994, Moore signed a pretrial diversion agreement with the U.S. Attorney's office, Western District of Texas, Waco, Texas, in which she was placed on 18 months probation and agreed to pay restitution of $9,720 (principal and interest) in monthly installments as directed by the pretrial diversion officer, during the period of the program.

Moore subsequently filed Chapter 13 bankruptcy and made only two monthly payments to the guarantor, the holder of the four defaulted PLUS loans. She also stopped reporting to Pretrial Services. When the Assistant U.S. Attorney learned that Moore had violated the conditions of her pretrial diversion program, the charges were filed.

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Illegal alien fraud ring

Los Angeles, California

A joint investigation by the ED/OIG, the Social Security Administration/OIG, the Immigration and Naturalization Service, the California Student Aid Commission and California State Police found evidence that eight Nigerian illegal aliens fraudulently obtained over $56,500 in student financial aid by claiming to be U.S. citizens while attending Casa Loma College in Los Angeles. The following individuals were previously charged in the Los Angeles, California, Municipal Court with perjury and grand theft, and were sentenced this period, as shown below.

- **Michael Alabi** was sentenced to serve 37 days of incarceration and 3 years probation and was ordered to pay $8,874 in restitution and perform 100 hours of community service.
- **Winifred Young** was sentenced to two days of incarceration in the county jail and placed on three years probation, and was ordered to perform 200 hours of community service and pay $3,518 in restitution.
- **Faustina Berkoh** pled guilty to three counts of perjury and one count of grand theft. Berkoh was immediately sentenced to serve 42 days in the county jail, placed on 3 years probation, ordered to pay $5,066 in restitution and fined $200. The court also ordered her to complete 250 hours of community service and to use her correct Social Security number and California driver's license number.
- **Felicia Adeyemo** was sentenced to five years probation, ordered to pay $5,318 in restitution and fined 200. She was also ordered to perform 200 hours of community service, and to use only her true name and to surrender her passport to the court.
- **Veronica Manna** pled no contest to one count of grand theft and was immediately sentenced to one day in the county jail, placed on three years probation, ordered to pay $12,472 in restitution and fined $200. She was also ordered to perform 100 hours of community service and to use her correct name.
- **Esther Douglas** pled guilty to one count of grand theft and was sentenced to three years probation and ordered to perform 100 hours of community service and ordered to pay $2,789 in restitution.
- **Therese Nojang** was ordered to serve four days in the county jail and placed on two years probation, ordered to perform 50 hours of community service and pay $7,033 in restitution, and fined $100.
- **Marygrace Okoye** was sentenced to three days in the county jail, placed on three years probation, and ordered to perform 100 hours of community service and pay $2,600 in restitution.

Most of the individuals provided false birth certificates to the school indicating they were born in the Virgin Islands. The investigation revealed the individuals were illegally in the U.S. when they obtained the loans and grants and were, therefore, ineligible to receive them. The above individuals (with the exemption of Nojang and Okoye, whose charges were reduced to a misdemeanor since their restitutions was paid in full) are eligible to be deported because they were convicted of a felony.

★ UPDATE on Previously Reported Cases ★

Arthur Nelson III, DIRECTOR

Edward Kleinman, ADMISSIONS DIRECTOR

Sharon L. "Tess" Hodge, DIRECTOR, EDUCATION DEPARTMENT

Barbara Taylor, DIRECTOR OF FINANCE

Gigi Reid, FINANCIAL AID REPRESENTATIVE

TEMPLE SCHOOL

Baltimore, Maryland

The above individuals pled guilty this period to charges of wire fraud in connection with activities to defraud the student aid programs. An OIG investigation developed evidence that from 1990 through 1993, the defendants executed a comprehensive scheme to defraud ED of student aid funds, a scheme that affected every division of the school; specifically, the admissions department, the financial aid department, and the education department.

In 1994, pursuant to OIG's investigation and the results of a concurrent audit of the Temple school initiated by National Education Center (NEC), the Temple School's parent corporation, NEC voluntarily suspended additional drawdowns of Title IV funds, ceased enrolling students, and repaid a liability of $2.4 million identified by the audit (see *Semiannual Report No. 29*, page 23). In addition, NEC and the Temple School terminated five employees, each of whom pled guilty this period to one count of wire fraud in U.S. District Court for the District of Maryland, Baltimore, Maryland, as detailed below.

- **Arthur Nelson III** pled guilty to one count of a six-count indictment charging him with wire fraud after being indicted by a Federal grand jury. Our investigation disclosed that Nelson approved the examination of forged signatures and fabricated necessary forms to meet various deadlines imposed for the submission of financial aid paperwork for new students. The amount of money fraudulently obtained from ED as a result of his actions was between $500,00 and $800,000.

- **Edward Kleinman** pled guilty to a one-count criminal information charging him with wire fraud. Our investigation disclosed that, in an effort to increase the number of new students admitted each term, Kleinman was either directly involved in, or specifically aware of and approved, various improprieties in the processing of new students. The amount of money fraudulently obtained from ED because of his actions was between $500,000 and $800,000.

- **Sharon L. "Tess" Hodge** pled guilty to a one-count information charging her with wire fraud. Our investigation showed that Hodge altered student academic records to maintain student retention rates at a high level. The amount of money fraudulently obtained from ED because of her actions was in excess of $70,000.

- **Barbara Taylor** pled guilty to a one-count information charging her with wire fraud. Our investigation revealed that Taylor routinely forged student signatures on financial aid documents, fabricated documents, and altered student attendance records. The amount of money fraudulently obtained from ED as a result of her actions was in excess of $350,000. Taylor received an eight-month split sentence consisting of four months incarceration and four months home confinement, to be followed by two years of supervised probation.

- **Gigi Reid** pled guilty to a one-count information charging her with wire fraud. Our investigation found that Reid changed income and dependency information on financial aid forms in order to obtain greater amounts of financial aid for students who otherwise were ineligible for aid or were eligible for a significantly smaller amount. The amount of money fraudulently obtained from ED as a result of her actions was in excess of $100,000. Reid was sentenced to one year probation, with four months of the probation to be served in home detention with telephone monitoring.

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American Career Training Corporation

Pompano Beach, Florida

A Federal district court judge granted the government's motion for summary judgment on two counts in a civil suit against American Career Training Corporation (ACT) and its owners. A judgment of $9,494,224 was entered against the school for breach of contract and a judgment of $3,532,332 was entered against the owners, James and Joseph Calareso, for unjust enrichment. The United States then voluntarily dismissed the remaining False Claims Act counts, because there were insufficent available assets to justify going to trial on those counts.

The Department of Justice is pursuing action to collect on the summary judgment against the owners, inasmuch as the school is defunct and has no assets. The lawsuit filed by the United States against ACT and its owners was based upon evidence that the defendants failed to pay refunds for students that had received Federal guaranteed student loans to attend the travel agent and secretarial school. The school and its owners had been the subject of an investigation in 1990 by the Senate Subcommittee on Investigations, Committee on Governmental Affairs. (*Semiannual Report No. 31*, page 26)

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California Institute

New York, New York

RONALD VAN AVERY, owner

Ronald Van Avery was arrested by an ED/OIG special agent pursuant to a Federal arrest warrant issued by the U.S. District Court for the Central District of California. The warrant was based upon a Federal grand jury indictment charging Avery with five counts of wire fraud and two counts of false statements. The indictment alleges that between 1987 and 1990, Avery illegally retained $4.3 million in Federal guaranteed student loans. The money was for 2,200 students' tuition refunds, which were required to be returned to the California Student Aid Commission.

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Dorothy Aristone School

Maple Shade, New Jersey

DOROTHY ARISTONE, owner

Dorothy Aristone was sentenced to three years probation and four months home confinement, and was ordered to pay $17,663 in restitution to ED. Aristone, who pled guilty to one count of making a false statement, admitted defrauding the Pell Grant program by falsely certifying that two EKG Technician courses met the minimum hours required and enrolled students in those ineligible courses. (*Semiannual Report No. 31*, page 18)

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Ron Bailie School of Broadcast

Seattle, Washington

RON BAILIE, owner; NADA BAILIE and TERRI BAILIE, operators

The owner and operators of Ron Bailie School of Broadcast (BSB) were sentenced in U.S. District Court, Seattle, Washington, to terms of imprisonment for having embezzled approximately $270,000 in Perkins Loan Funds.

Ronald Bailie, owner of BSB, was sentenced to 36 months in prison to be followed by 3 years probation and fined $50,000. Bailie's wife, Nada Bailie, was sentenced to 27 months in prison and fined $25,000. Their daughter, Terri Bailie, was sentenced to 27 months in prison and fined $25,000. In addition, Ron, Nada and Terri Bailie were ordered jointly and severally to make restitution of $259,619.

The Bailies' convictions were based on their acts while operating the now defunct Bailie School of Broadcast, with school locations in Seattle, Spokane, San Francisco, San Jose, Denver and Phoenix. The investigation disclosed that the Bailies embezzled approximately $200,000 in Perkins Loan payments collected by the servicer and forwarded them to BSB; and approximately $20,000 from 280 students who paid BSB directly after the servicer's contract had ended. The funds were intended for the Perkins Loan revolving fund but were used instead for business and personal expenses. The OIG traced each direct student payment to ensure that each student would receive credit for his or her payments.

In an attempt to cover up the stolen funds, the Bailies filed six fraudulent Federal Applications and Fiscal Operation Reports (FISAPs) for each of the six BSB campus-based schools. The FISAPs contained false and fraudulent state-

ments claiming that the institutions had the Federal Perkins Loan funds in cash on hand or in their trust accounts. (*Semiannual Report No. 31*, page 18)

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Michael Boyd

Cleveland, Ohio

Michael Boyd was sentenced in the Northern Federal Judicial District of Ohio to 15 months incarceration and 3 years probation, and was ordered to pay $191,500 in restitution. A joint ED/OIG and U.S. Postal Inspection Service OIG investigation revealed that Boyd submitted 30 fraudulent student loan applications. Boyd received over $140,000 in guaranteed student loans while claiming to be a medical student at Universidad Federico Henriquez y Carvajal in the Dominican Republic.

Our investigation disclosed that Boyd initially attended the school but dropped out during the second year. He continued to generate and submit fraudulent applications for three years after attending the school. Boyd used multiple Social Security numbers and names, forged school officials' signatures, concealed prior defaulted student loans, and falsified attendance certifications. (*Semiannual Report No. 31*, page 21)

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Donna M. Perona, data entry clerk

UNITED STUDENT AID FUNDS, INC.

Topeka, Kansas

Donna M. Perona pled guilty in Federal District Court, Kansas City, Kansas, to one count of a 12-count indictment charging her with mail fraud. Perona was sentenced to five years probation and was ordered to pay restitution of $26,189 and a $50 fine and assessment.

United Student Aid Funds, Inc. (USA Funds) is a student loan services provider; its services include liaison between schools and lenders, loan application processing, and disbursement of loan proceeds. Perona worked at the USA Funds' Topeka regional office. Her duties there included electronic data entry of PLUS and Stafford Loan application information and electronic transfer of that data to the USA Group, Inc., corporate headquarters in Fishers, Indiana.

Our investigation disclosed that Perona submitted seven fraudulent loan applications and obtained $26,188 in student aid funds. In her position as a USA Funds employee, Perona forged signatures on loan applications that she knew to be fraudulent, forwarded the information to the USA Group corporate office, and used the U.S. mail to send the checks to her and her husband's residence. On the loan applications, Perona provided false information using her name and her husband's and children's names. She also used false Social Security numbers, forged the signatures of applicants and financial aid officers, and listed false school enrollment information. Perona then received loan checks and deposited them into her own account in Citizen State Bank and Trust in Hiawatha, Kansas. (*Semiannual Report No. 31*, page 19)

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Robert D. Barber, admission representative
Margaret Donnelly, school director

EDMONDSON JUNIOR COLLEGE

Nashville, Tennessee

A Federal grand jury in the Middle District of Tennessee indicted Robert D. Barber and Margaret Donnelly on one count each of conspiracy to defraud the U.S. Department of Education. The indictment alleges that Barber encouraged and instructed employees to alter admissions tests and falsify Federal grant applications so that students could illegally obtain Federal student grants and loans. Barber received large bonuses based on student enrollment. The indictment further alleges that Donnelly coached and encouraged students to falsify Federal grant applications in order to fraudulently obtain Federal grants on behalf of ineligible students.

This indictment is a result of an ongoing criminal investigation by the Office of Inspector General. To date, eight former Edmondson employees have been convicted of conspiracy to defraud the Department of Education of approximately $200,000 in Federal student loans and grants. (*Semiannual Report No. 31*, page 27 and *Semiannual Report No. 30*, page 30)

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USA Training Academy

Newark, Delaware

The actual recoveries received from the liquidation of properties owned by USA Training Academy, Inc., Newark, Delaware, and its primary shareholder, Robert Teeven, reached the $10 million level with the receipt of the twenty-first distribution under the plan. USA Training Academy and its owner were the subjects of a civil suit resulting from an OIG investigation that found fraud and misrepresentations in the administration of the Title IV programs.

As part of a settlement agreement reached in December 1993, the defendants agreed to liquidate their assets and distribute most of the proceeds to ED. By the time the liquidation is completed, the Department is expected to recover about $14.4 million. (*Semiannual Report No. 28*, page 28)

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Sheila F. Davis

Wilberforce, Ohio

Shelia F. Davis, a/k/a Shelia Davis Webster, was sentenced in the Southern District of Ohio, Dayton, Ohio, to serve 13 months incarceration on each of two counts of student financial aid fraud. Upon release Davis will be on three years supervised probation. The sentence followed Davis's guilty plea to a two-count information.

Our investigation found that Davis had fraudulently submitted 14 PLUS loan applications while attending Central State University in Wilberforce, Ohio. In addition to using her own name, Davis also used the names of her mother, father, brother, and boyfriend on the applications to obtain the loans. Davis's scheme netted her approximately $42,000 in PLUS loan funds. (*Semiannual Report No. 31*, page 22)

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Kim Dix Thomson

Terre Haute, Indiana

Kim Dix Thomson was sentenced in Vigo County Superior Court, Vigo County, Indiana, to one year supervised probation, ordered to pay $1,662 in restitution and assessed court fines. Thomson, a Terre Haute businessman, was sentenced as a result of pleading guilty to welfare fraud.

An OIG and Indiana State University (ISU) police investigation revealed that Thomson paid another student, James Klug, to complete the course-work for Thomson's degree at ISU, and that Thomson authorized Klug to use Thomson's name and Social Security number to receive Title IV funds. Investigators found evidence that Klug used Thomson's identifiers to receive over $10,000 in student loans. (*Semiannual Report No. 31*, page 21)

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American Truck Driving School of Texas

Waco, Texas

RICHARD K. CRANE, owner/operator

A judgment of forfeiture was issued in U.S. District Court, Western District of Texas, Waco Division, ordering assets valued at an estimated $2,235,000 to be forfeited to the U.S. government. The assets — property of Richard K. Crane, doing business as American Truck Driving School of Texas (ATDS) — were seized by special agents with the ED/OIG, the Interbal Revenue Sservice/Criminal Investigative Division and the U.S. Marshals Service in December 1994 pursuant to a 39-count indictment charging Crane, Lucy Ingraham and seven corporations with mail fraud, conspiracy to defraud the government, obstructing a Federal audit, false statements, money laundering, and aiding and abetting.

Investigation revealed that Crane, while operating ATDS, intentionally failed to refund federally insured student loan proceeds totaling approximately $2,600,000. The above assets — which included real estate, five automobiles (including a 1992 Mercedes Benz 600 SEL and two Chevrolet Corvettes), four tractors, seven show tractor trucks, seven show trailers, and a boat — were ordered to be forfeited after ATDS failed to make restitution of $1,200,000 as agreed to in the plea agreement entered by Ingraham in September 1995 on behalf of ATDS. This period, the seized ATDS assets were auctioned in Crowley, Texas, in an auction conducted by EG&G Dynatrend, which holds a contract with the Department of the Treasury. The sale grossed $346,750. (*Semiannual Report No. 31*, page 25; *Semiannual Report No. 30*, page 28)

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PLUS Loan Fraud

Atlanta, Georgia

SELINA ANN LAMOTTE, WYLIE IRVING, MARY JONES and KEITH LAMOTTE

Selina Ann Lamotte, Wylie Irving, Mary Jones and Keith Lomotte were sentenced in U.S. District Court, Northern District of Georgia, for their participation in a scheme to defraud the PLUS Loan program. A joint Department of Health and Human Services (HHS)/OIG, U.S. Postal Inspection Service and ED/OIG investigation found that Selina Ann Lamotte submitted and led others to submit more than $108,000 in falsified PLUS loan applications.

- **Selina Ann Lamotte** was sentenced to 10 months, to be split between incarceration and home confinement, and 3 years supervised probation after her release, and was ordered to pay restitution of $50,058 and a special assessment of $250.

- **Wylie Irving** was sentenced to five years probation and six month of home confinement, and was ordered to pay restitution of $27,160.
- **Mary Jones** was sentenced to four years probation and was ordered to pay $11,486 in restitution and a $150 special assessment.
- **Keith Lamotte** was sentenced to serve 90 days of home confinement and 4 years probation and was ordered to pay $11,640 in restitution and a $250 special assessment.

(*Semiannual Report No. 29*, page 25)

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Unilex College

San Francisco, California

THEO KAREN NELSON, owner/president;
KEITH WATSON, CEO

Theo Karen Nelson and Keith Watson each pled guilty in the Eastern District of California to one count of obstruction of justice charges. Both subjects are attorneys. The plea agreement carries a maximum sentence of five years imprisonment, a $250,000 fine, and three years supervised release. Collateral consequences of conviction are revocation of their license to practice law and debarment from further Title IV participation.

A joint investigation by the ED/OIG, the FBI, the HHS/OIG, and the California Student Aid Commission found that the subjects intentionally moved records out of state after several grand jury subpoenas were issued for the records. The subjects rented a residence using false names, used false names on Department of Motor Vehicles records, and gave outdated drop-box addresses. When at last the subjects were found and the location of the records determined, the records that were there were seized.

Subsequent actions on the part of the subjects revealed additional records which should have been produced earlier pursuant to the subpoena. At that point, the OIG seized those additional records.

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Walker Education Center

Detroit, Michigan

An OIG investigation revealed that Walker Education Center was a business established solely to falsify the Pell Grant applications of college students. Mack Walker and his sister Ethel Durr were sentenced to prison terms on February 1, 1995, for their operation of the Walker Education Center (see *Semiannual Report No. 30*, page 26).

The students who paid Walker and Durr to falsify their Pell Grant applications were targeted for civil and criminal action by the U.S. Attorney's office. At the end of the reporting period, 33 Affirmative Civil Enforcement (ACE) program targets have yielded 20 civil settlement agreements totaling $114,702. In addition, 4 civil lawsuits have been filed. Seventy-eight targets for criminal proceedings have produced 66 pretrial diversion agreements, accompanied by promissory notes, and resulting in recoveries of $711,202. The current total recoveries of the Mack Walker investigation are $825,904. (*Semiannual Report No. 31*, page 26; *Semiannual Report No. 30*, page 34; *Semiannual Report No. 29*, page 21)

Abstract 3

INITIATIVES CONDUCTED IN RESPONSE TO CONGRESSIONAL REQUESTS

(October 1, 1995 – March 31, 1996)

Local School Districts' Use of Drug-Free Schools and Communities Act Funds

February 8, 1996

At the request of the House Subcommittee on National Security, International Affairs and Criminal Justice, Committee on Government Reform and Oversight, we performed a review to determine how local school districts used their Drug-Free Schools and Communities Act (DFSCA) funds. We visited nine school districts and determined how they used their DFSCA funds during fiscal year 1995. This review was not an audit, and because we visited only nine school districts, we could not draw conclusions about the DFSCA program nationwide. However, we did draw the following conclusions about the nine districts we visited.

- We found that all nine districts had program elements that clearly discouraged drug use and that all nine also had aspects other than just drug avoidance, such as improving self-esteem, conflict resolution, and improving social behavior. Local school officials informed us that such programs have shown better results than programs that simply educate the students about drugs or utilize scare tactics.
- Eight of the nine districts solicited suggestions from the community, including parents, in developing their DFSCA programs.
- All nine districts provided training for teachers and counselors in addition to student instruction.
- Five of the nine districts also received significant amounts of State and local funding for their drug-free activities.

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Review of Direct Loan and FFEL Program Administration

(in process)

At the request of the House Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunity, the OIG is conducting a review of the management systems and structure of the student financial assistance programs. Our review will assess the efficiency, effectiveness and consistent application of the systems and structure with respect to the Direct Loan program and the parallel FFEL program. We hope to complete this review during the next reporting period.

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Review of the Office for Civil Rights

ACN 05-50200 November 22, 1995

As a result of several Congressional requests, the OIG conducted an audit of the Office for Civil Rights' complaint evaluation and audit resolution processes. We found that OCR has made many improvements in its operations. OCR's efforts are ongoing and our recommendations should assist them in contining to improve operations. The results of our review are discussed in detail in Abstract 1, "Significant Audits and Audit-related Activities."

RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	SEMIANNUAL REPORT PAGE
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION					
93-05**	IMPROVEMENTS ARE NEEDED IN THE ADMINISTRATION OF THE INDIAN FELLOWSHIP PROGRAM	11/30/93	*	27	20
11-20202	CHANGES TO IMPACT AID PROGRAMS' SITE REVIEW PROCESS SHOULD IMPROVE EFFICIENCY AND ASSURE BETTER USE OF PROGRAM FUNDS	09/30/94	4,382,000	26	85
OFFICE OF POSTSECONDARY EDUCATION					
11-80160	FINANCIAL ANALYSIS CERTIFICATION PROCESS NOT ADEQUATE TO PROTECT STUDENT	09/30/90	15,026,619	19	15
11-90050	ACCREDITING AGENCY RECOGNITION PROCESS DOES NOT SERVE AS AN EFFECTIVE CONTROL IN DETERMINING THE RELIABILITY OF AGENCIES THAT ACCREDIT NUMEROUS PROBLEM SCHOOLS	06/30/91	*	22	5
93-02**	ED SHOULD PROHIBIT CONFLICTS OF INTEREST BETWEEN GUARANTY AGENCIES AND AFFILIATED ORGANIZATIONS	06/30/93	*	26	86
11-00012	ADMINISTRATIVE CERTIFICATION PROCESS DOES NOT ADEQUATELY ASSURE THAT ALL SCHOOLS ARE CAPABLE OF ADMINISTERING TITLE IV FUNDS	08/31/93	*	22	7
11-00010	OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS	09/30/93	33,800,000	24	63
11-20015	OPE'S LENDER AND GUARANTEE AGENCY OVERSIGHT FUNCTION SHOULD FOCUS MORE ON AUDIT FOLLOW-UP	09/30/93	*	26	15
11-90040	THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS	09/30/93	482,000	22	6
92-05**	ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES	09/30/93	154,000,000	24	12
92-10**	STRICTER STANDARDS NEEDED FOR GRANTING OF FORBEARANCES	09/30/93	*	25	3
92-13**	ED NEEDS TO CHANGE THE LEGISLATIVE DEFINITION OF LOANS IN REPAYMENT	01/31/94	*	25	5
93-07**	THE SECRETARY'S DEFAULT REDUCTION INITIATIVE - AN ALTERNATIVE APPROACH TO IMPLEMENTING SANCTIONS	03/31/94	*	27	18
05-20075	EFFECTIVENESS OF THE REGIONAL INSTITUTIONAL REVIEW BRANCHES' MONITORING OF INSTITUTIONS PARTICIPATING IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS	08/31/94	*	28	19
09-40003	WHY USE PELL GRANTS FOR INSTRUCTION IN ENGLISH AS A SECOND LANGUAGE? TAXPAYERS PAY MORE AND STUDENTS GET LESS	10/31/94	*	29	15
17-30302	FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992	10/31/94	*	29	16
11-40000	INELIGIBLE, NON-U.S. CITIZENS RECEIVED $70 MILLION IN FEDERAL PELL GRANTS	12/31/94	116,000,000	29	16

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	SEMIANNUAL REPORT PAGE
OFFICE OF VOCATIONAL AND ADULT EDUCATION					
*92-04***	*THE ALLOCATION FORMULA FOR ADULT EDUCATION SHOULD BE REVISED IN ORDER TO DISTRIBUTE THE FUNDS MORE EQUITABLY*	*06/30/92*	*2,300,000*	*24*	*65*
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-00333	*GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME*	*03/31/94*	*7,500,000*	*26*	*17*
OFFICE OF THE DEPUTY SECRETARY					
03-20200	*REVIEW OF SELECTED U.S. DEPARTMENT OF EDUCATION FELLOWSHIP PROGRAMS ADMINISTERED BY THE REHABILITATION SERVICES ADMINISTRATION, THE OFFICE OF HIGHER EDUCATION, AND THE OFFICE OF INDIAN EDUCATION*	*08/31/94*	*	*29*	*19*

* Non-monetary findings only

** Management improvement report

ED/OIG Reports on Education Department Programs and Activities

(October 1, 1995 - March 31, 1996)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 15 reports were completed by ED/OIG auditors. These reports are listed below.

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION						
04-38000	LESSONS LEARNED FROM RTC'S HANDLING OF FEDERAL FAMILY EDUCATION LOANS...	DC	MAR-96	*		
04-60001	PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES	DC	MAR-96	*		
05-40005	ED NEEDS TO CONSIDER IMPLEMENTING CHANGES FOR MONITORING LENDERS AND SERVICERS	MN	FEB-96	*		
05-50002	GREAT LAKES HIGHER EDUCATION CORPORATION'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM	WI	NOV-95	$1,012,000		$450,000
05-50004	ILLINOIS STUDENT ASSISTANCE COMMISSION'S REPORTING OF DEFAULTED FEDERAL FAMILY EDUCATION LOAN PROGRAM LOANS CONSOLIDATED UNDER THE FEDERAL CONSOLIDATION LOAN PROGRAM	IL	NOV-95	445,777		
05-50007	EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE AREAS RELATED TO COLLECTION AGENCY ACTIVITIES	DC	NOV-95	*		
05-50008	AREAS RELATED TO INTERNAL OPERATIONS					
06-40004	THE ESCROW PROCESS: A POTENTIALLY EFFECTIVE TOOL FOR SAFEGUARDING TITLE IV FUNDS	DC	JAN-96	*		
07-58051	OPE WAIVERS: THE DEPARTMENT SHOULD ESTABLISH AND FOLLOW A PROCESS	DC	FEB-96	*		
11-50002	COST ANALYSIS OF THE DEPARTMENT'S INITIATIVE TO CONSOLIDATE DEBT COLLECTION SERVICE LOANS INTO THE DIRECT LOAN PROGRAM	DC	JAN-96	*		
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES						
02-50202	NEW JERSEY DIVISION OF VOCATIONAL REHABILITATION SERVICES NEEDS TO STRENGTHEN ITS POLICIES, PROCEDURES, AND CONTROLS FOR VOCATIONAL REHABILITATION PROGRAM INCOME	NJ	MAR-96	*		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION						
02-40201	NEW YORK STATE DEPARTMENT OF EDUCATION AND NEW YORK CITY BOARD OF EDUCATION AUDIT OF CHAPTER 1/TITLE I MONITORING AND RECOGNITION PROGRAMS	NY	FEB-96	*		

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF THE CHIEF FINANCIAL OFFICER						
03-50451	*ASSOCIATE CONSULTANT, INC.*	*DC*	*FEB-96*	*20,647*		
OFFICE FOR CIVIL RIGHTS						
05-50200	*REVIEW OF OFFICE FOR CIVIL RIGHTS - COMPLAINT EVALUATION AND USE OF RESOURCES*	*DC*	*NOV-95*	*		
OFFICE OF THE DEPUTY SECRETARY						
05-40003	*EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE - AREAS OUTSIDE MANAGEMENT'S CONTROL*	*DC*	*MAR-96*	*		

In addition to the above reports, during the period ED/OIG issued 411 audit reports prepared by other auditors.

* Non monetary findings only

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

(Dollars in Thousands)

	Number	Questioned	Unsupported [2]
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	331	$ 550,066	$ 41,753
B. Which were issued during the reporting period	91	24,782	19,236
Subtotals (A + B)	422	$ 574,848	$ 60,989
C. For which a management decision was made during the reporting period	275	$ 42,994	$ 15,165
(i) Dollar value of disallowed costs		$ 22,466	$ 3,172
(ii) Dollar value of costs not disallowed		$ 20,528	$ 11,993
D. For which no management decision has been made by the end of the reporting period	147	$ 531,854	$ 45,824
E. For which no management decision was made within six months of issuance	77	$ 476,605	$ 23,418

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

(Dollars in Thousands)

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	11	$ 62,661
B. Which were issued during the reporting period	1	450
Subtotals (A + B)	12	$ 63,111
C. For which a management decision was made during the reporting period	3	$ 6,972
(i) Dollar value of recommendations that were agreed to by management		$ 6,972
(ii) Dollar value of recommendations that were not agreed to by management		$ 0
D. For which no management decision has been made by the end of the reporting period	9	$ 56,139
E. For which no management decision was made within six months of issuance	8	$ 55,689

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

UNRESOLVED REPORTS ISSUED PRIOR TO OCTOBER 1, 1995

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
07-00027	SAINT MARY OF THE PLAINS COLLEGE	KS	09/06/90	94,500,000	01	06/30/96	21	6
03-14078	SOJOURNER-DOUGLAS COLLEGE	MD	07/05/91	114,206	02	05/31/96	**	
03-14079	SOJOURNER-DOUGLAS COLLEGE	MD	07/05/91	243,300	02	05/31/96	**	
03-21069	SOJOURNER-DOUGLASS COLLEGE	MD	04/22/92	39,354	02	05/31/96	**	
03-21068	SOJOURNER-DOUGLASS COLLEGE	MD	04/24/92	183,920	02	05/31/96	**	
09-10007	WESTERN TRUCK SCHOOL	CA	09/10/92	8,834,503	01	09/30/96	25	78
07-23545	MISSOURI STATEWIDE	MO	04/01/93	1,048,768	04	09/30/96	**	
05-20007	AMERICAN CAREER ACADEMY	MI	05/27/93	2,003,658	02	09/30/96	27	17
05-20076	OHIO STATE AID COMMISSION	OH	06/25/93	54,597,642	04	09/30/96	27	17
05-30003	PATRIOT EDUCATION CENTER	OH	09/03/93	2,464,884	02	09/30/96	27	17
09-10005	CALIFORNIA STUDENT AID COMMISSION	CA	09/10/93	41,100,000	04	09/30/96	27	17
03-20205	INDEPENDENCE CENTER OF NORTHERN VIRGINIA	VA	09/17/93	173,742	01	09/30/96	**	
06-10007	AVALON VOCATIONAL TECHNICAL INSTITUTE	TX	09/17/93	8,795,000	02	09/30/96	27	17
09-33114	STATE OF CALIFORNIA	CA	12/24/93	4,191,032	04	09/30/96	28	18
07-33123	MISSOURI STATEWIDE	MO	03/07/94	187,530	04	09/30/96	**	
09-20209	CALIFORNIA DEPARTMENT OF REHABILITATION	CA	03/08/94	*	04	09/30/96	28	18
02-20208	PUERTO RICO DEPARTMENT OF EDUCATION	PR	03/10/94	17,639,381	01	06/30/96	28	18
05-43919	MINNESOTA STATEWIDE	MN	06/07/94	126,918	02	05/31/96	**	
03-35000	SEAA	VA	06/29/94	725,544	04	09/30/96	29	13
04-33141	SOUTH CAROLINA STATEWIDE	SC	07/01/94	580,739	01	09/30/96	**	
03-33154	COMMONWEALTH OF PENNSYLVANIA	PA	07/05/94	31,656,831	03	09/30/96	29	17
03-46185	MARYLAND HIGHER EDUCATION LOAN	MD	07/05/94	28,100	04	09/30/96	**	
05-30010	NORTHSTAR GUARANTEE INCORPORATED	MN	08/16/94	619,287	04	09/30/96	29	31
01-30051	THE STUDENT LOAN CORPORATION MUST IMPROVE ITS CONTROLS OVER FEDERAL INTEREST BILLING	NY	09/13/94	979,000	04	09/30/96	29	31
09-43080	ARIZONA STATEWIDE	AZ	10/03/94	68394	03	09/30/96	**	
03-47062	VIRGINIA STATE EDUCATION ASSISTANCE AUTHORITY	VA	11/23/94	33,646	04	09/30/96	**	
04-56503	LIVINGSTONE COLLEGE	NC	12/20/94	122,561	02	06/30/96	**	
04-56507	JACKSON STATE UNIVERSITY	MS	12/20/94	39,767	02	06/30/96	**	
06-20004	TEXAS GUARANTEED STUDENT LOAN CORPORATION	TX	01/23/95	178,000,000	04	09/30/96	30	16,39
08-51010	UNIVERSITY OF WYOMING	WY	01/29/95	2,169	02	09/30/96	**	
01-46037	COMMONWEALTH OF MASSACHUSETTS	MA	02/01/95	2,173,536	01	09/30/96	30	16
02-56113	VIRGIN ISLANDS DEPARTMENT OF EDUCATION	VI	02/17/95	10,375,000	01	06/30/96	30	17
01-47084	STATE OF RHODE ISLAND	RI	02/24/95	2,649,393	01	09/30/96	30	17
07-33125	STATE OF NEBRASKA	NE	02/27/95	1,113	01	09/30/96	**	
03-30202	LOOKING AHEAD MAKING THE MOST OF EVALUATIONS-- A REVIEW OF THE U.S. DEPARTMENT OF EDUCATION'S PLANNING & EVALUATION SERVICE	DC	03/14/95	*	01	***	30	19,39

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
02-56019	NATIONAL THEATRE OF THE DEAF	CT	04/04/95	293,521	02	***	**	
02-56020	NATIONAL THEATRE OF THE DEAF	CT	04/04/95	26,678	02	***	**	
07-43944	STATE OF MISSOURI	MO	04/11/95	*	04	09/30/96	**	
05-53007	WORK SKILLS CORPORATION	MI	04/19/95	*	02	09/30/96	**	
06-30004	MANAGING FOR RESULTS -- PERFORMANCE-BASED SYSTEMS AT SELECTED ACCREDITING AGENCIES	DC	05/08/95	*	01	***	31	7,32
05-53006	MICHIGAN DEPARTMENT OF LABOR	MI	05/16/95	647,805	02	09/30/96	**	
08-43945	STATE OF MONTANA	MT	05/16/95	53,361	01	09/30/96	**	
08-51061	VON CURTIS ACADEMY OF HAIR DESIGN	UT	05/17/95	32,862	01	06/30/96	**	
10-43931	STATE OF WASHINGTON	WA	05/30/95	26,657	05	09/30/96	**	
10-43942	STATE OF OREGON	OR	05/30/95	110,375	04	09/30/96	**	
10-51026	ACADEMY OF HAIR DESIGN	WA	05/31/95	*	02	09/30/96	**	
05-40007	REPORT ON THE TRANSITIONAL GUARANTY AGENCY'S ROLE IN GUARANTY AGENCY TRANSITION	MN	06/02/95	*	02	***	**	
07-51077	GATEWAY ELECTRONICS INSTITUTE	NE	06/16/95	69,598	02	06/30/96	**	
04-51195	MEHARRY MEDICAL COLLEGE	TN	07/11/95	123,014	02	06/30/96	**	
04-51226	TREND BENDERS ACADEMY	SC	07/11/95	17,249	02	06/30/96	**	
04-56662	TUSKEGEE UNIVERSITY	AL	07/17/95	1,590	02	09/30/96	**	
03-47090	COMMONWEALTH OF PENNSYLVANIA	PA	07/20/95	50,689,820	03	09/30/96	**	
04-51261	EDMONDSON JUNIOR COLLEGE	IN	08/15/95	12,000	01	06/30/96	**	
04-51324	ARNOLD'S BEAUTY SCHOOLS	TN	08/15/95	14,495	02	09/30/96	**	
06-51200	JOCELYN DASPIT BEAUTY COLLEGE	LA	08/15/95	24,206	02	04/30/96	**	
06-51167	INTERNATIONAL AVIATION AND TRAVEL ACADEMY	TX	08/15/95	*	02	09/30/96	**	
05-51136	NATIVE AMERICAN EDUCATIONAL SERVICES	IL	08/16/95	284,259	02	09/30/96	**	
01-56068	INDEPENDENCE ASSOCIATES, INC.	MA	08/23/95	*	02	09/30/96	**	
04-56619	TRENHOLM STATE TECHNICAL COLLEGE	AL	08/23/95	813,824	02	05/31/96	**	
05-56060	NORTHERN ILLINOIS UNIVERSITY	IL	08/25/95	*	02	09/30/96	**	
07-56022	IOWA WESLEYAN COLLEGE	IA	08/25/95	*	02	09/30/96	**	
09-51287	TRAVEL AND TRADE CAREER INSTITUTE	CA	08/31/95	3,407	02	09/30/96	**	
05-53009	MICHIGAN DEPARTMENT OF EDUCATION	MI	09/07/95	2,115,378	01	06/30/96	31	12
05-53011	ILLINOIS STATE BOARD OF EDUCATION	IL	09/07/95	282,345	01	09/3096	**	
05-53012	ILLINOIS STATE DEPARTMENT OF REHABILITATION	IL	09/07/95	5,016,685	01	09/30/96	31	12
01-33139	STATE OF MAINE	ME	09/08/95	639,686	01	09/30/96	**	
01-56045	STATE OF MAINE	ME	09/08/95	324,757	02	09/30/96	**	
09-38259	THE DEPARTMENT SHOULD EVALUATE THE NEED FOR ANNUAL CHILD COUNTS IN THE IMPACT AID PROGRAM	CA	09/12/95	*	01	06/30/96	**	
03-56327	DELAWARE STATE UNIVERSITY	DE	09/18/95	69,005	02	04/30/96	**	
03-41145	STAUNTON SCHOOL OF COSMETOLOGY	VA	09/22/95	12,825	02	09/30/96	**	
02-40075	INTITUTO DE EDUCACIO	PR	09/25/95	5,896,464	01	09/30/96	31	8,32
05-51018	SHAWNEE STATE UNIVERSITY	OH	09/25/95	18,400	02	09/30/96	**	
07-48051	CLOSED SCHOOLS $2.4 BILLION UNAUDITED	DC	09/26/95	*	01	***	**	
02-40200	NEW YORK STATE DEPARTMENT OF EDUCATION	NY	09/27/95	*	01	09/30/96	**	
09-53007	ARIZONA STATEWIDE	AZ	09/29/95	85,101	03	06/30/96	**	
10-53726	STATE OF WASHINGTON	WA	09/29/95	273,259	05	09/30/96	**	
08-51053	TRAVEL CAREER INSTITUTE	ND	09/30/95	16,795	02	09/30/96	**	

NOTES

* Non-monetary findings only
** Not individually written up
*** Information not provided by POC

REASON CODES FOR REPORTS OVER SIX MONTHS OLD

01 - Administrative delays
02 - Delay in receiving auditee comments or additional information from auditee
03 - Delay in receiving additional information from non-Federal auditor.
04 - Lack of staff
05 - Cooperative Audit Resolution and Oversight Initiative (CAROI) pilot State

STATISTICAL SUMMARY

October 1, 1995 – March 31, 1996

M = million K = thousand

OIG AUDIT REPORTS ISSUED	15
- Questioned Costs	$ 1.5 M
- Unsupported Costs	$ —
- Recommendations for Better Use of Funds	$ 450.0 K
NON-FEDERAL AUDIT REPORTS ISSUED	411
- Questioned Costs	$ 4.0 M
- Unsupported Costs	$ 19.2 M
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	15
- Questioned Costs Sustained	$ 15.5 M
- Unsupported Costs Sustained	$ 1.6 M
- Additional Disallowances Identified by Program Managers	$ 3.0 M
- Management Commitment to Better Use of Funds	$ 7.0 M
NON-FEDERAL AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	400
- Questioned Costs Sustained	$ 3.8 M
- Unsupported Costs Sustained	$ 1.6 M
- Additional Disallowances Identified by Program Managers	$ 4.8 M
INVESTIGATIVE CASE ACTIVITY	
- Cases Opened	92
- Cases Closed	143
- Cases Active at End of Period	315
- Cases Referred for Prosecution	31
- Accepted [1]	22
- Declined	9
INVESTIGATION RESULTS	
- Indictments/Informations [2]	27
- Convictions/Pleas [3]	32
- Fines Ordered	$ 112.7 K
- Restitutions Ordered [4]	$ 1.2 M
- Restitution Payments Collected	$ 94.4 K
DEBARMENT/SUSPENSION ACTIVITIES	
- OIG Requests for Departmental Action	17[5]
- Individuals/Entities Debarred	1

[1] *Includes 2 cases accepted for civil prosecution.*

[2] *Includes 1 action that was not reported in our last* Semiannual Report.

[3] *Includes 1 action that was not reported in our last* Semiannual Report.

[4] *Includes $75,598 in restitutions ordered that was not reported in our last* Semiannual Report.

[5] *Because of organizational changes within OIG, requests for Departmental action were suspended in September 1995 and did not resume until mid-March 1996.*

GLOSSARY OF ABBREVIATIONS

ACN	audit control number
CAROI	Cooperative Audit Resolution and Oversight Initiative
CFO	Chief Financial Officer
DCS	Debt Collection Service
DFSCA	Drug-Free Schools and Communities Act
ED	U.S. Department of Education
ESEA	Elementary and Secondary Education Act
FBI	Federal Bureau of Investigation
FFEL	Federal Family Education Loan (program)
FY	fiscal year
GAO	General Accounting Office
GMRA	Government Management Reform Act
IPA	independent public accountant
K	thousand
M	million
OCR	Office for Civil Rights
OIG	Office of Inspector General

GLOSSARY OF ABBREVIATIONS
(continued)

OESE	Office of Elementary and Secondary Education
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
PCIE	President's Council on Integrity and Efficiency
ST	State

INSPECTOR GENERAL'S HOTLINE

Anyone knowing of fraud, waste or abuse involving Department of Education funds or programs should call or write the **Inspector General's Hotline.**

The toll-free number is **1-800-MIS-USED.**

The mailing address is:

Inspector General's Hotline
Office of Inspector General
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-1510

Your report may be made anonymously or in confidence.

Individuals wishing to report such activities may also contact the nearest OIG office at the following locations:

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Philadelphia, PA	(215) 596-1021
Atlanta, GA	(404) 331-2087
Chicago, IL	(312) 353-7891
Dallas, TX	(214) 767-3361
Kansas City, MO	(816) 891-7958
Denver, CO	(303) 844-4517
San Francisco, CA	(415) 556-6726
Seattle, WA	(206) 220-7876

In the Washington, D.C., metropolitan area, the Hotline telephone number is:

(202) 205-5770

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___ACN 02-50202	___ACN 05-40005	___ACN 06-40004
___ACN 02-56108	___ACN 05-50002	___ACN 07-58051
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U.S. Department of Education
MISSION STATEMENT

Our mission is to ensure equal access to education
and to promote educational excellence throughout the Nation.

Office of Inspector General
MISSION STATEMENT

To promote the efficient and effective use of taxpayer dollars
in support of American education by providing independent and objective
assistance to the Congress and the Secretary in assuring
continuous improvement in program delivery,
effectiveness, and integrity.

Office of Inspector General
VISION STATEMENT

To be a continual learning and improving organization:

PEOPLE	—	one which appreciates, challenges, respects, and honors its employees
PRODUCT	—	one which serves as a change agent to encourage integrity and continuing improvement in program delivery and program effectiveness
CUSTOMER	—	one which seeks to achieve the highest level of customer satisfaction possible within our independent and objective role

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